Homework due Thursday 10/25

1. Get to know your local business and/or parents (if it’s a local business you can have a group of 3, if a parent- one student- one parent
   1. Interview a businessperson (or your parents), ask them how they set their prices. Discuss with them what they think the impact would be of a 10% price increase or a 10% price decrease of one or more of their products would be on their total revenue (just revenue—we are not deducting for the costs in the item)
   2. Discuss with the business owner how s/he thinks the following currently affect their sales (very strongly, strongly, average, not much, a lot) if possible explain the reasoning
      1. Changes in general income
      2. Wealth effect – stock market and other asset pricing- When assets are going up in value to people tend to buy lots more
      3. Pressure from competitors- is this a “generic-like” product or is it more ‘unique”
      4. How have “substitute” goods affected the price
      5. Does the business person consider their product a luxury or necessity. Explain
      6. What products are complements to the product involved and how does the owner perceive the impact of price changes in the complementary good on his/her good.
      7. To what extent does the business price discriminate? Is it possible for the business to charge one price to one group of customers and a different price to another. What difficulties exist stopping them from getting more $$ from customers who may pay a higher price.
      8. How easy is it for the business owner to increase supply if the market seems to be “hot” for this good.
2. Discuss the pros and cons of legalizing drugs such as heroin or cocaine from an economic perspective using the concepts of supply, demand, and elasticity. Create a hypothetical Demand schedule showing an elastic change in demand, as well as an inelastic for an illegal drug.